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## Australia

## Sugar

## Annual

## 2004

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**Report Highlights:**

Australian sugar production and exports are forecast to increase in 2004/05 in line with a rise in forecast sugar cane production, despite a strengthening exchange rate. Area of cane harvested is forecast to decline, as the industry remains under severe financial pressure. A strong Australian dollar is lowering local currency returns from sugar exports.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Canberra [AS1]  
[AS]

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**SECTION ONE: SITUATION AND OUTLOOK**

Production of sugar cane is forecast to increase in 2004/05 due to increased cane yield. A return to more normal weather conditions following drought and disease outbreaks has boosted cane production to the highest level since 1998/99. Sugar production is forecast to increase in line with increases in expected cane production.

Sugar exports in 2004/05 are forecast to increase in line with production, despite the negative impacts of the strengthening Australian dollar. Closing stocks are also expected to increase due to the higher production levels.

The sugar industry remains under severe financial pressure, with the total value of the cane crop at its lowest level in over a decade, despite relatively high production levels. Lower harvested area of cane is forecast for 2004/05, and if realized, would represent the lowest area since 1998/99. The area decline is due in part to the closure of the Moreton Mill because of poor viability. According to official government statistics, the number of cane growers is also falling.

Continued financial pressure has precipitated the introduction of legislative changes for the sugar industry into the Queensland state parliament. Although yet to be ratified by the Parliamentary legislation process, these changes would essentially abolish current laws determining the delivery of cane to mills. They would also result in exemptions to Queensland Sugar Corporation's single desk trading rights for sugar used for alternative purposes, such as plastics and ethanol. Sugar exported in bags would also be exempt from single desk trading.

The appreciation of the Australian dollar has a dampening affect on agricultural commodity prices generally. Although future fluctuations will impact Australia's competitiveness in international markets and returns to growers, currency movements are not expected to lead to any significant switching between sugar and other exportable agricultural commodities.

## SECTION TWO: STATISTICAL TABLES

Australia Centrifugal Sugar							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Beginning Stocks	507	507	463	662	489	583	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	5371	5461	5114	5023	0	5300	(1000 MT)
TOTAL Sugar Production	5371	5461	5114	5023	0	5300	(1000 MT)
Raw Imports	3	6	3	3	0	3	(1000 MT)
Refined Imp.(Raw Val)	2	2	2	2	0	2	(1000 MT)
TOTAL Imports	5	8	5	5	0	5	(1000 MT)
TOTAL SUPPLY	5883	5973	5582	5582	489	5780	(1000 MT)
Raw Exports	4081	3975	3753	3767	0	3940	(1000 MT)
Refined Exp.(Raw Val)	139	139	140	140	0	140	(1000 MT)
TOTAL EXPORTS	4220	4114	3893	3907	0	4080	(1000 MT)
Human Dom. Consumption	1200	1200	1200	1200	0	1200	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	1200	1200	1200	1200	0	1200	(1000 MT)
Ending Stocks	463	662	489	583	0	608	(1000 MT)
TOTAL DISTRIBUTION	5883	5973	5582	5582	0	5780	(1000 MT)

Australia Sugar Cane for Centrifugal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Planted	0	0	0	0	0	0	(1000 HA)
Area Harvested	423	423	415	415	0	408	(1000 HA)
Production	38062	37968	36280	37111	0	38250	(1000 MT)
TOTAL SUPPLY	38062	37968	36280	37111	0	38250	(1000 MT)
Utilization for Sugar	38002	37908	36220	37051	0	38190	(1000 MT)
Utilizatn for Alcohol	60	60	60	60	0	60	(1000 MT)
TOTAL UTILIZATION	38062	37968	36280	37111	0	38250	(1000 MT)

<b>Import Trade Matrix Centrifugal Sugar</b>			
<b>Time Period</b>	<b>Yr End Jun</b>	<b>Units:</b>	<b>MT</b>
<b>Imports for:</b>	<b>2002</b>		<b>2003</b>
U.S.	481	U.S.	70
Others		Others	
China	2022	New Zealand	2890
New Zealand	654	Malaysia	1932
Singapore	256	China	1613
Mauritius	163	Mauritius	661
Malaysia	89	Singapore	326
Hong Kong	54	Hong Kong	252
Brazil	23	France	17
Paraguay	20	United Kingdom	17
India	14	Belgium-Lux.	10
The Netherlands	6	India	10
<b>Total for Others</b>	<b>3301</b>		<b>7728</b>
Others not Listed	16		216
<b>Grand Total</b>	<b>3798</b>		<b>7944</b>

<b>Export Trade Matrix Centrifugal Sugar</b>			
<b>Time Period</b>	<b>Yr End Jun</b>	<b>Units:</b>	<b>MT</b>
<b>Exports for:</b>	<b>2002</b>		<b>2003</b>
U.S.	83220	U.S.	88025
Others		Others	
Malaysia	771072	Malaysia	798833
Japan	762594	Rep of Korea	795400
Rep of Korea	569750	Japan	729000
Canada	477515	China	367700
New Zealand	245550	Canada	329271
China	230000	New Zealand	218600
Saudi Arabia	169300	Saudi Arabia	212000
Taiwan	122700	Indonesia	163700
Indonesia	66603	Taiwan	157500
Fiji	463	Iran	84000
<b>Total for Others</b>	<b>3415547</b>		<b>3856004</b>
Others not Listed	60		30762
<b>Grand Total</b>	<b>3498827</b>		<b>3974791</b>

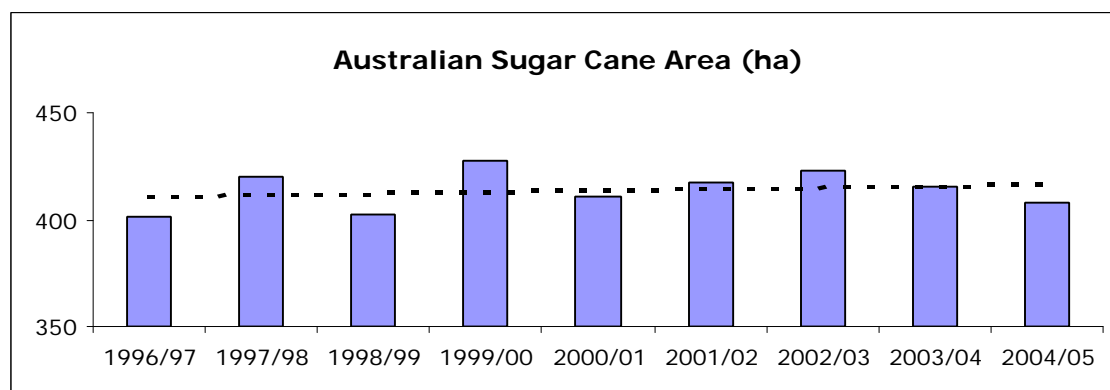
### SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

#### Sugar Cane for Centrifugal

##### Sugar Cane Area (Cut for Crushing)

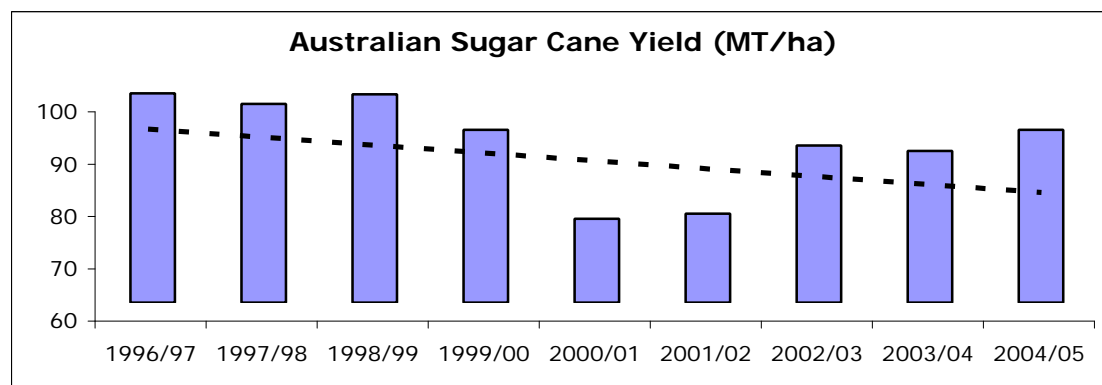
The total area of sugar cane cut for crushing in 2004/05 (July–June) is forecast at 408,000 hectares. This figure is down from the estimate for the previous year and in line with ABARE's most recent forecast. According to ABARE reports, the closure of the Moreton Mill in southern Queensland at the end of 2003/04 is expected to contribute to the decline in area harvested in 2004/05.

The area of sugar cane cut for crushing in 2003/04 is estimated at 415,000 hectares, down slightly from the 423,000 hectares in 2002/03 and in line with ABARE numbers. The record area of sugar cane cut for crushing stands at 428,000 hectares in 1999/2000.



##### Cane Yield

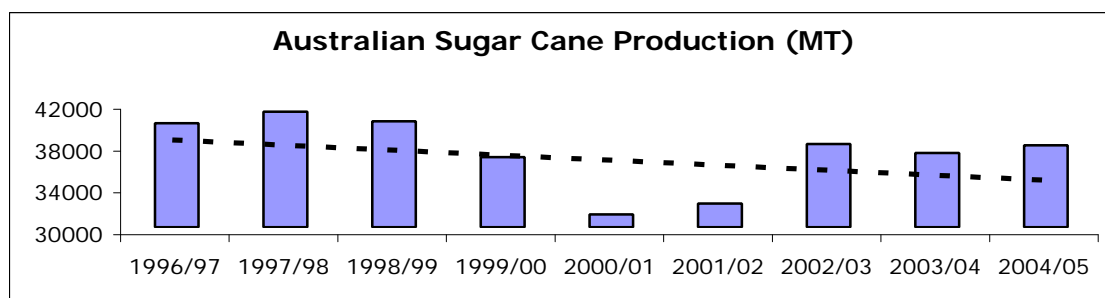
Post forecasts an average cane yield of 93 MT/hectare in 2004/05. A cane yield of this level remains above the 89 MT/hectare estimated for the previous year and well above ABARE's five year average of 85 MT/hectare. Industry sources anticipate above average cane yields per hectare, due to improved seasonal conditions.



### Sugar Cane Production

Sugar cane production in 2004/05 is forecast at 38,250 TMT, slightly above ABARE's figure and in line with current industry expectations. Improved climatic conditions following the drought in 2002/03 has increased cane yields per hectare to above average levels. The higher yields are partly offset by a reduced area of cane harvested.

Sugar cane production is estimated at 37,111 TMT in 2003/04, up slightly from Post's previous report (Gain Report #AS3039). Excellent weather in the lead up to harvest and good harvesting conditions boosted the crop late in the season. Sugar cane production for 2002/03 has been trimmed slightly to 37,968 TMT, in line with the most recent ABARE numbers.



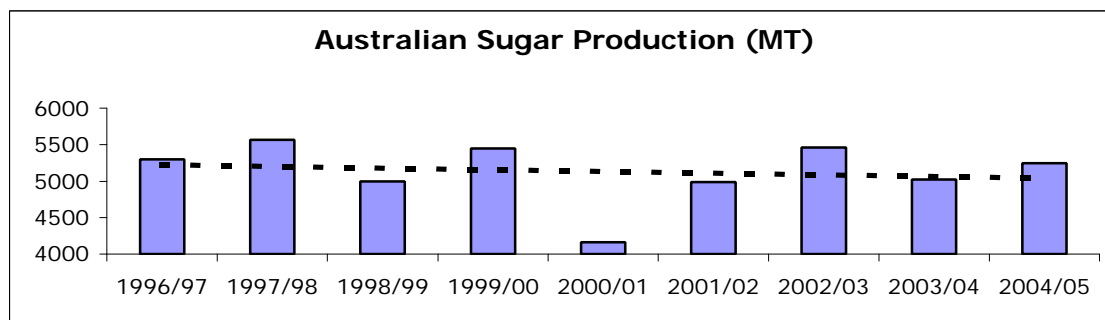
### **Centrifugal Sugar**

#### Production

Total sugar production in 2004/05 is forecast at 5,300 TMT, slightly above ABARE's forecast and in line with industry expectations. The return to normal weather conditions in 2003/04 has significantly improved the prospects for the 2004/05 harvest. Post anticipates that this increase will be driven by increased cane yield, which will be only slightly constrained by reduced Commercial Cane Sugar (CCS) content.

ABARE forecasts production in 2004/05 at 5,247 TMT, up from the 5,023 TMT recorded for the previous year. If achieved, this would represent the fourth largest crop on record according to ABARE's historical data.

ABARE's long-term projections have sugar production remaining at 5,247 TMT in 2005/06 and increasing incrementally to 5,568 TMT in 2008/09.



AUSTRALIAN SUGAR PRODUCTION STATISTICS					
CATEGORY	2000/01	2001/02	2002/03	2003/04	2004/05
Cane Crushed (TMT)	31,228	32,260	37,968	37,111	37,825
Cane Price (\$A/MT)	22	30	26	21	19
Sugar Prod. (TMT)	4,162	4,987	5,461	5,023	5,247
Total Exports (TMT)	2,966	3,594	4,219	3,907	4,120
Export Value (\$AMillion)	1,111	1,392	1,415	966	1,064

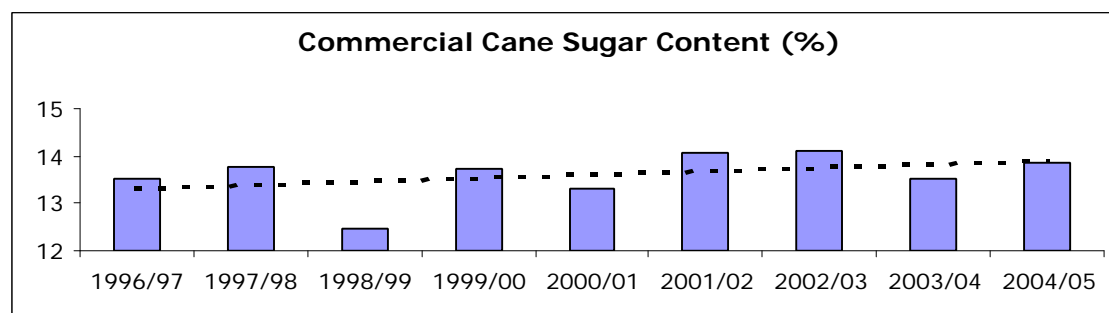
Note: July-June years.

Source: ABARE

### Commercial Cane Sugar Content

Post cane production and sugar production forecasts for 2004/05 assume a Commercial Cane Sugar (CCS) content of 13.87 percent. Although up slightly on the 13.54 percent estimated for the previous year, this level is considered by industry sources to be around average. According to ABARE's historical data, the five-year average is 13.78 percent, which includes two very below-average years.

Improved rainfall and higher cane yield per hectare, due to improved growing conditions, are expected to keep CCS content at average levels. However, in the event that cane production surpasses forecast levels, CCS is likely to fall below the current forecasted level.



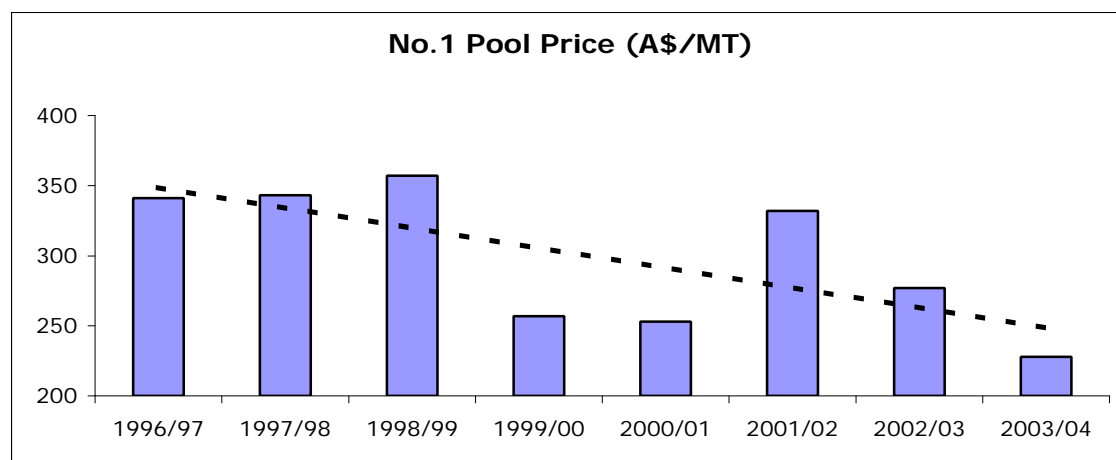
### **Prices**

Prices received by Australian sugar growers have received much publicity of late. Preliminary pricing estimates for 2003/04 indicate that Australian sugar farmers are receiving the lowest nominal prices since 1985/86. Lower world prices for sugar and a strengthening Australian dollar have dramatically reduced prices received by Australian sugar producers.

Preliminary ABARE estimates put the 2003/04 No. 1 pool price for sugar at A\$228/MT, down significantly from the A\$276/MT received in the previous year. According to ABARE's historical data, the five-year average pool price stands at A\$295/MT. Industry sources suggest that the cost of production for cane growers is around A\$250/MT.

ABARE's estimates place the value of the Australia cane crop at A\$733 million in 2003/04. This figure has been steadily declining since 2001/02, when value was estimated at A\$1,013 million.





### Exchange Rate

The Australian dollar has appreciated sharply against the currencies of major trading partners over the past several years. For example, the Australian dollar was valued at US\$0.75 in mid April 2004, up 15 percent from the average of US\$0.652 in 2003 and about 38 percent higher than the average of US\$0.544 in 2002. Australia's competitiveness in world agricultural markets and returns to domestic producers are heavily impacted by the exchange rate of the Australian dollar.

The appreciation of the Australian dollar has a dampening affect on agricultural commodity prices generally. Although future fluctuations will impact Australia's competitiveness in international markets and returns to growers, currency movements are not expected to lead to any significant switching between sugar and other exportable agricultural commodities.

### Cross Commodity Developments

Current low sugar prices have generated much debate concerning other potential uses for sugar cane. Ethanol production is an alternative use that has been suggested as a means of diversifying the output of the sugar industry.

Of late, the Government of Australia (GOA) has invested funds in the development of ethanol as an alternate use for sugar cane, principally in assisting the development of technology to blend ethanol with petroleum. However, manufacturing ethanol from wheat starch is currently attracting more interest from the industry.

### Consumption

Official statistics concerning total sugar consumption are unavailable. Anecdotal evidence suggests that consumption remains relatively steady at 1,200 TMT. Post derives sugar consumption numbers from production, net exports and changes in stocks.

### Trade

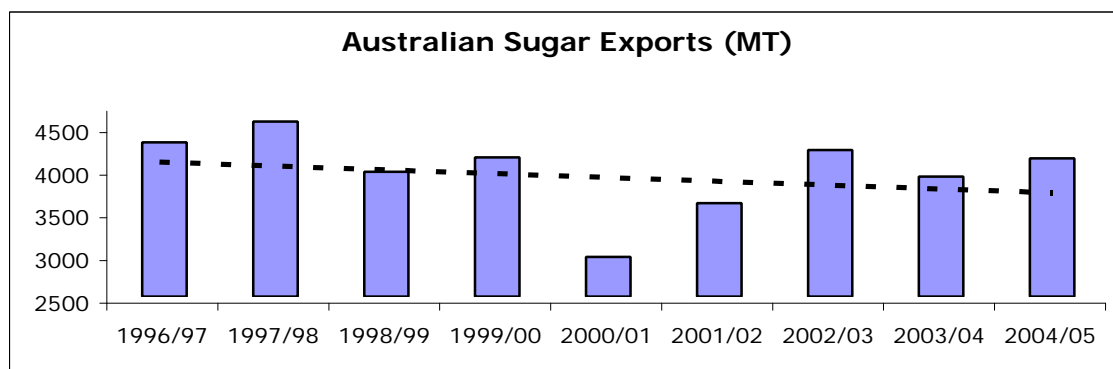
#### Exports

Total sugar exports are forecast at 4,120 TMT in 2004/05, just above the revised estimate of 3,907 TMT for the previous year. Higher production and increased stock levels are expected

to increase the availability of sugar suitable for export, despite the negative impact of a stronger Australian dollar.

ABARE's long-term projections have sugar exports increasing over the medium term reaching 4,533 TMT in 2007/08. ABARE has exports falling to 4,218 TMT in 2008/09.

Official ABS statistics for 2002/03 show Malaysia, South Korea and Japan as Australia's top three export markets, receiving nearly two thirds of total exports. China, Canada and the United States are the next three largest markets with the U.S. receiving about two percent of total Australian sugar exports.



### Free Trade Agreements

Australia-US FTA: Raw cane sugar enters the United States under a tariff-rate quota (TRQ), which permits countries to ship specified quantities to the United States at a relatively low tariff rate, but subjects all other imports (above quota) to a higher tariff. Under the TRQ, Australia is allocated 87,402 MT of raw cane sugar in U.S. fiscal year 2004. Australia's allocation is based on the share of exports to the United States between 1975 and 1981.

Australia completed free trade agreement (FTA) negotiations with the United States in February 2004, which would ultimately result in duty-free trade for all Australian agricultural exports, except certain dairy products and raw cane sugar. Under the negotiated FTA, Australian sugar access to the United States would remain unchanged.

The Australian sugar industry reacted angrily to the omission of sugar in the Australian-U.S. FTA. Industry reports claim that sugar was excluded from the agreement in order to secure an overall agreement. Sugar industry representatives were hopeful of increasing Australia's access arrangements to the United States under the FTA.

Growers and millers have used their treatment under the FTA as justification for a proposal put forward to the Australian Prime Minister for assistance. The proposed package is valued at A\$600 million and would provide restructuring assistance, exit assistance, productivity improvements and diversification. Industry reports suggest that this package would replace the existing Sugar Industry Reform Package, which was only recently put into place (see following Policy section of this report).

Australia-Thailand FTA: Australia completed FTA negotiations with Thailand in October 2003, with formal ratification pending. Although the final details are not yet available, the FTA is reported to increase Australia's quota entitlements by 10 percent per annum, with the quota and tariffs eliminated by 2020.

Australia has historically imported small amounts of sugar from Thailand. Australia's applied tariff rate for sugar is zero.

## **Stocks**

Official data concerning sugar stocks is not available. The holding of sugar stocks is not subsidized in Australia and Post believes that stock levels reflect commercial conditions.

## **Policy**

### Industry Regulation

The "Sugar Industry Reform Bill 2004" was recently introduced into Queensland state parliament. Although it is yet to be ratified, enactment in its current form would provide significant changes to the operating environment for Queensland's cane growers.

Traditionally, Queensland cane growers have produced sugar cane under the "Cane Production Area" (CPA) system. This system essentially required cane producers to deliver their cane to the nearest mill for processing. It also required mills to take cane from all growers within their area.

In its current form, the new Bill would abolish the CPA system and allow growers to deliver cane to the mill of their choice. However, it would also revoke requirements that mills receive all the cane from a particular area. Growers would need new supply contracts in order to supply mills after January 1, 2005. If growers and millers agree, they can maintain the existing supply arrangements under the new contracts.

The new Bill would also phase out compulsory arbitration for dispute settlement. From January 2005, disputes would be settled via an interim dispute settlement process involving representatives of both millers and growers.

### Industry Assistance

Australia announced a Sugar Industry Reform Program (SIRP) on September 10, 2002. A centerpiece of the program is regional adjustment, diversification and industry rationalization. Under the SIRP, a total of A\$150 million of assistance is to be provided to the sugar industry over a four-year period. The Commonwealth is to provide A\$120 million, funded by a levy on domestic sugar sales. Under an MOU with the Commonwealth Government, the state of Queensland provides an additional A\$30 million and repealed elements of the Queensland Sugar Act 1999. Part of this program will likely be notified to the World Trade Organization as 'Amber Box'.

Under the SIRP, cane farmers have an option to leave the industry, diversify to other crops, or sell and leave agriculture. Cane farmers can apply for an industry exit grant of up to A\$45,000, or receive an interest rate subsidy on loans of up to A\$50,000 in 2002/03 and 2003/04 to replant or plant cane. The interest rate subsidy is equivalent to about 50 percent of the commercial rate. Sugar farmers in New South Wales, Western Australia and Queensland are eligible to participate. Around 94 percent of Australian sugar is grown in Queensland.

The sugar levy, which began on January 1, 2003, will run for five years. A levy of A\$0.03 per kilogram (A\$30/MT) is assessed on domestically produced or imported sugar packaged for retail sale, and sugar that is used as an ingredient in goods that are produced in Australia for human consumption. Exports of refined sugar are exempt from the levy and there is a

rebate for exports of sugar-containing products. Imports of sugar-containing products are also exempt from the levy.

Additional support to rationalize and restructure the sugar industry is being considered, largely in reaction to sugar being excluded from the recently negotiated FTA with the United States. The Australian sugar industry has requested A\$600 million, which has been deemed excessive by the Commonwealth Government.

## **Marketing**

### Statutory Marketing

Under current state legislation, Queensland Sugar Corporation (QSC) has the exclusive right to market raw sugar produced in Queensland on both the export and domestic markets. However, the "Sugar Industry Reform Bill 2004" would make some small amendments to the existing arrangements.

The Bill would also create exemptions for raw sugar used to manufacture alternative products such as ethanol or plastics. This will apply from July 2004. This exemption process would include growers as well as mills or whomever may negotiate cane immediately prior to crushing. The new Bill would also provide exemptions to single desk arrangements for the export of sugar in bags, as opposed to bulk.

The 'Ministerial direction' that requires all vested sugar sold domestically to be sold at export parity prices would remain intact under the proposed new Bill. A previous proposal to exempt domestic sugar from the single desk in return for the abolition of the Ministerial direction was not included in the new Bill.